

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05  
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TO SECSTATE WASHDC 7913  
INFO AMEMBASSY BANGKOK  
AMEMBASSY KUALA LUMPUR  
AMEMBASSY KUWAAT  
AMEMBASSY MANILA  
AMCONSUL MEDAN  
AMEMBASSY SINGAPORE  
AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 4369

E.O. 11652: GDS  
TAGS: ENRG, BEXP, KU, ID  
SUBJECT: KUWAITI-INDONESIAN DISCUSSIONS ON BATAM ISLAND  
REFINERY PROJECT

REF: JAKARTA 14831 (NOVEMBER 2, 1977)

1. RECENT VISIT OF KUWAITI FINANCE MINISTER TO INDONESIA HAS CAUSED SPECULATION THAT KUWAITI-INDONESIAN PLANS FOR CONSTRUCTION OF \$700-800 MILLION BATAM ISLAND REFINERY PROJECT MAY BE BACK ON TRACK. KNOWLEDGEABLE INDONESIAN OFFICIALS INDICATE THERE IS NEW MOVEMENT TOWARD POSSIBLE AGREEMENT, BUT POTENTIAL PROBLEMS REMAIN AND IT IS PREMATURE TO PREDICT THE REFINERY WILL BE BUILT.

2. GOI SOURCES INDICATE THERE ARE FOUR OUTSTANDING AREAS OF DIFFICULTY TO BE NEGOTIATED:

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A. MARKETING OF REFINED PRODUCTS: INDONESIAN STUDIES INDICATE A SURPLUS OF MIDDLE DISTILLATES IN REGIONAL MARKETS UNTIL AT LEAST 1983; CONSEQUENTLY, KUWAITIS ARE INSISTING INDONESIA GUARANTEE ITS DOMESTIC MARKET FOR REFINERY'S PRODUCTS. INDONESIA ITSELF EXPECTS TO BE NET IMPORTER OF MIDDLE DISTILLATES THROUGH MID-1980'S EVEN IF DUMAI AND BALIKPAPAN REFINERIES ARE EXPANDED.

THUS, IN PRINCIPLE, THE PRODUCTS SHOULD BE ABLE TO BE MARKETING DOMESTICALLY. HOWEVER, SENIOR GOI OFFICIALS DO NOT WANT TO "GUARANTEE" THE DOMESTIC MARKET AND ARE RELUCTANT TO ENTER INTO A FIRM AGREEMENT TO DO SO. BECAUSE THE BASIC ECONOMICS POINT TO STRONG MUTUALITY OF INTEREST, THIS ISSUE CAN POSSIBLY BE COMPROMISED, ALTHOUGH THE BURDEN OF DOING SO PROBABLY RESTS MOST HEAVILY ON THE GOI.

B. FINANCIAL RETURN: WE UNDERSTAND THE KUWAITIS CONTINUE TO INSIST ON A GUARANTEED FINANCIAL RETURN OF 20 PERCENT ON INVESTMENT. THE INDONESIANS ARE WILLING TO DISCUSS A "FAIR" RETURN, BUT TELL US THERE IS NO CHANCE OF A FIGURE CLOSE TO 20 PERCENT BEING ACCEPTABLE. OUR IMPRESSION IS THAT THE KUWAITIS MAY HAVE TO COMPROMISE ON THIS ISSUE IF THE PROJECT IS TO BE REALIZED.

C. INFRASTRUCTURE DEVELOPMENT OF BATAM ISLAND: IF THE REFINERY PROJECT IS REQUIRED TO BEAR THE COSTS OF INFRASTRUCTURE DEVELOPMENT, INDONESIANS DO NOT BELIEVE THE PROJECT CAN YIELD EVEN A "FAIR" RATE OF RETURN FOR KUWAIT INVESTMENT. CONSEQUENTLY, OUR SOURCES FEEL THE REFINERY MUST STAND ON ITS OWN. HOWEVER, THIS REQUIRES THE FINANCING AND PROPERLY SEQUENCED CONSTRUCTION OF INFRASTRUCTURE SERVICES ON BATAM TO BE AVAILABLE FOR THE REFINERY.

D. POLICY DIVISIONS WITHIN THE KUWAITI GOVERNMENT: GOI OFFICIALS SAY THERE ARE STRONG DIVISIONS WITHIN THE CONFIDENTIAL

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KUWAITI GOVERNMENT ABOUT FINANCING THE CONSTRUCTION OF OVERSEAS REFINERIES IN PRINCIPLE, AND IN PARTICULAR ABOUT BATAM ISLAND. SOME INDONESIANS FEEL THESE DIVISIONS MAY BE FELT AT EVERY STAGE OF NEGOTIATIONS AND THAT IF A FEASIBILITY STUDY SUGGESTS POSSIBLE TECHNICAL OR COMMERCIAL DIFFICULTIES THE SCALES MAY BE TIPPED IN FAVOR OF THOSE IN THE KUWAITI GOVERNMENT WHO OPPOSE THE PROJECT.

3. A KUWAITI TECHNICAL DELEGATION IS SCHEDULED TO BE IN INDONESIA THIS WEEK RE THE PROJECT AND THIS DELEGATION, ACCOMPANIED BY MIGAS DIRECTOR WIJARSO AND PERTAMINA PRESIDENT HARYONO, PLANS VISIT KUALA LUMPUR ABOUT APRIL 6 FOR FURTHER DISCUSSIONS WITH GOM AND/OR PETRONAS. WE WILL CONTINUE TO FOLLOW CLOSELY FROM JAKARTA DEVELOPMENTS ON THIS MAJOR PROJECT WHICH MAY BE EXCELLENT OPPORTUNITY FOR US CONSTRUCTION FIRMS, ESPECIALLY IF US COMPANY DOES FEASIBILITY STUDY.  
MASTERS

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## Message Attributes

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Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014